A Presentation for

Cuyahoga County Property Consolidation

January 8, 2013

CBRE URS

In partnership with

Cuyahoga County
Consolidated Administrative Headquarters

Proposed County HQ Exterior

Ameritrust Build-to-Suit Preliminary Renderings







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Proposed County HQ Rooftop Terrace

Ameritrust Build-to-Suit Preliminary Renderings



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Proposed County HQ Ground Floor

Ameritrust Build-to-Suit Preliminary Renderings



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Proposed County HQ 4th Floor Entry

Ameritrust Build-to-Suit Preliminary Renderings



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Executive and Consultant Recommendation

Initiative I and Initiative III Ameritrust Complex Proposed Solution

- Geis Companies Proposals
 - Good Partner – Strong development team and background
 - Good mixed use concepts – County tenancy provides redevelopment catalyst
 - Strong environmental commitment for redevelopment and HQ – LEED Silver
 - Location along East 9th Street in core of CBD
 - Location with adjacencies to public transit, inexpensive parking options, proximity to East 9th Street innerbelt ramps
 - Benefits of both new development and absorption of vacancy – County captures the efficiency of new construction and replaces 190,000 sf empty, obsolete space
 - New construction provides County with design input and control, ability to tailor space to needs both aesthetically and functionally (columns, windows, etc.)
 - Transfer of property to County at conclusion of lease for $1.00
 - Cost for new construction comparable to existing when factoring entire transaction
 - Highest purchase price offered for Ameritrust – $8.5 M Premium
 - Financing approved – Ability to close quickly

Initiative I –

Headquarters

- Financial Analysis of Optima Ventures Presentation
- Layouts at 925 vs. Ameritrust
- Value of Real Estate
- Other Considerations

Financial Considerations

Analysis of Optima Ventures Presentation

- **Ameritrust Base Rent - *Miscalculation***
 - Proposed Rent at Ameritrust is $7.96 per RSF in Year 1, $26.17 per RSF in Year 2, and increases by 2% per year thereafter
 - Optima analysis escalates these amounts incorrectly, assuming that Year 2 Rent at Ameritrust would be $26.53 per RSF. This has significant impact over 26 years

	Optima Analysis	True Estimate	Error
Ameritrust Base Rent	**$190,393,900**	**$187,849,700**	**$2,544,200**

- **925 Operating Expenses Escalations - *Omission***
 - 925 Building proposal passes through increases in operating expenses to tenant
 - Optima analysis of 925 does not account for those costs, but charges the Ameritrust proposal with those same increases (they are contained within the Rent, not passed through).
 - County estimates, using national and local 20-year averages, calculate escalations at 925 at 2.5% per year.

	Optima Analysis	True Estimate	Error
925 Operating Expenses	**$0**	**$14,760,700**	**$14,760,700**

Financial Considerations

Analysis of Optima Ventures Presentation

- **925 Construction and Refurbishment – *Omission, Incorrect Assumption***
 - Optima analysis assumes total construction and refurbishment costs at 925 should be identical to those at Ameritrust
 - County analysis incorporated actual estimates by URS and PCS of the costs of initial construction based on layouts, uniform assumptions, etc.
 - County analysis incorporates estimates of refurbishment – carpet, paint, wall coverings, etc. – items that typically vary with size.

	Optima Analysis	True Estimate	Error
925 Construction & Refurb.	$16,607,400	$18,265,600	$1,658,200
925 Refurbishment	$5,199,100	$6,025,300	$826,200
Total	**$21,806,500**	**$24,290,900**	**$2,484,400**

- **Parking - *Incorrect Assumption***
 - Optima analysis assumes that County is required to guarantee parking at Ameritrust to fund a new garage. This option is not being taken by County, and employees will pay for own parking as is current policy

	Optima Analysis	True Estimate	Error
Parking	**$15,662,900**	**$0**	**$15,662,900**

Financial Considerations

Analysis of Optima Ventures Presentation

- **Security – *Incorrect Assumption***
 - Optima analysis assumes that at Ameritrust, County funds all costs of security.
 - At all options, County's contribution towards security is the same – armed personnel at main entries. All other security is covered by landlords at each option.

	Optima Analysis	True Estimate	Error
Security	**$1,999,700**	**$0**	**$1,999,700**

- **Real Estate Taxes – *Incorrect Assumption***
 - Optima analysis assumes that County should be able to receive a real estate tax exemption for its Premises at 925, thus resulting in a rent reduction.
 - Per legal counsel, County and its consultant were advised that a real estate tax exemption could only be fully relied upon in the event that the facility were completely dedicated to public use and owned by a public entity. Of all options, this only describes the Ameritrust proposal.

	Optima Analysis	True Estimate	Error
Real Estate Taxes	**$3,585,700**	**$0**	**$3,585,700**

Financial Considerations
Analysis of Optima Ventures Presentation

- Presentation and materials delivered by Optima Ventures on January 2nd did not review or consider County analysis, nor make accurate assumptions
- Optima Cover Letter indicates a $34 M difference between 925 and Ameritrust option over 26 years – although this number does not appear in Optima materials
- Optima analysis not comprehensive, and includes a number of significant inconsistencies or omissions, only some of which include:
 - **Ameritrust Base Rent** **$2.54 M**
 (Overstated by Optima per correspondence 1-4-13)
 - **925 Operating Expenses Escalations** **$14.76 M**
 (Optima analysis charges these to Ameritrust, but not 925)
 - **925 Construction and Refurbishment Costs** **$2.48 M**
 (Omitted by Optima analysis – higher at 925 due to size and historic considerations)
 - **Parking** **$15.66 M**
 (Option within Initial Ameritrust Proposal that is not being taken by County)
 - **Security** **$2.00 M**
 (Misunderstanding of Optima – Included in Ameritrust Proposal)
 - **Real Estate Tax Exemption** **$3.59 M**
 (Cannot be relied upon for 925, per direction from legal counsel)
 - **Total of Optima Errors Listed Above** **$41.04 M**

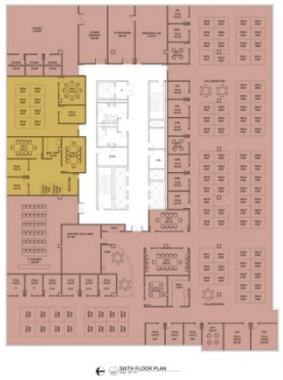
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925 Building Layouts
Analysis of Optima Ventures Presentation

- Materials presented by Optima Ventures make hypothetical assumption that 925 Building has efficient layout and URS plans overstate square footage needed to accommodate County program – roughly 75% of Optima materials make this contention without any basis
- URS analysis completed actual layouts at 925 based on the actual current program, dealing with the following issues:
 - Large, open stairwells
 - Excessive Corridor Requirements
 - Inefficient structural / column grid
 - Large atriums and light wells
- County Selection Committee and officials deemed 925 has historic character, but was disjointed and not reflective of the primary project goal – to secure functional space for County administrative operations.



925 Building, 2nd Floor



Ameritrust BTS, 6th Floor

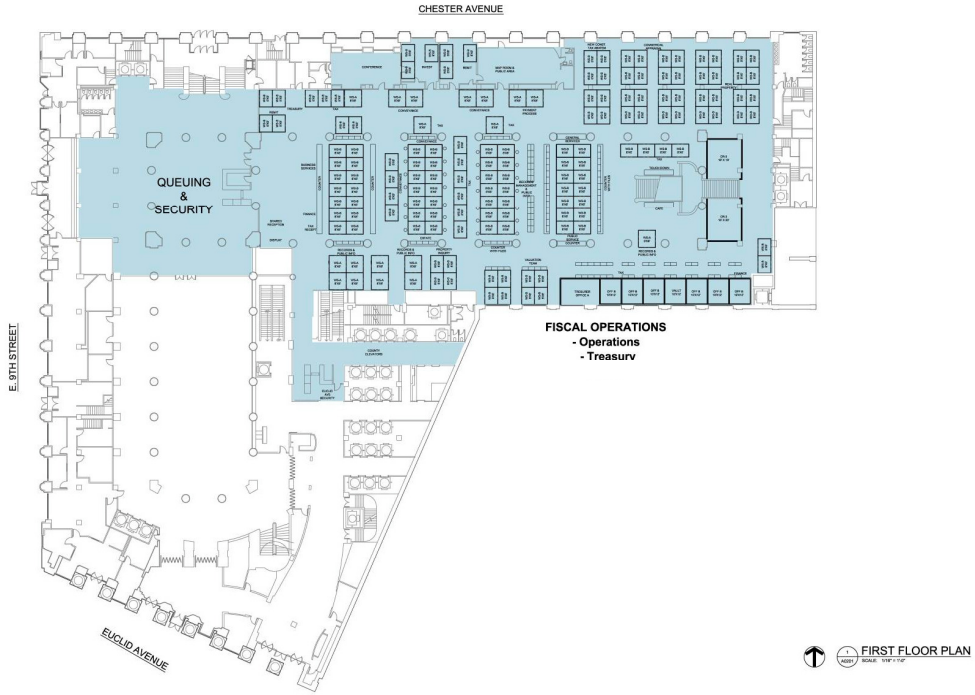
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925 Building Layouts (con't)
Analysis of Optima Ventures Presentation

Example of County Efforts to Improve Costs and treat 925 equitably:

925 Building proposals and presentations suggested using historic banking lobby as largely empty gathering and concierge areas – not for County business – and charging full rent for those spaces

- This concept would have resulted in a total footprint of roughly 300,000 RSF, and cost the County an additional $22.8 Million in Rent, Escalations, and Utilities over 26 years
- Instead, County and its consultants considered alternate solutions and realized that by filling the space with cubicles, it could reduce the footprint to the final 265,212 RSF that was analyzed and scored



The Value of Real Estate

Analysis of Optima Ventures Presentation

- Optima analysis assumes zero value to the real estate transferred to the County, not a reasonable assumption.
- Estimating future real estate values can be challenging, but it cannot be ignored that real estate will always have some value. Consider the following recent sales:

Building	Age	Price per SF	Class / Occupancy	Buyer
North Point	18 Yrs	$140.99	A / 94%	REIT
One Cleveland	25 Yrs	$159.28	A / 94%	Optima
Eaton	24 Yrs	$106.33	A / 95%	Weinreb
Penton	38 Yrs	$80.87	B / 80%	Optima
55 P.S.	52 Yrs	$80.22	B / 84%	Optima

- It would not be unreasonable to estimate that after 26+ years of inflation, a 26-year old, 100% credit tenant occupied, Class A facility could potentially trade in the range of $160 per sf – the amount used in the CBRE models for the recommended building.
- CBRE considered a number of different scenarios, using an average in its analysis.
- Based upon the rates proposed by 925 in Year 26, and using investment-grade criteria, a buyer could likely pay over $40 M for the property in 2040 if the County entered into a “sale leaseback” transaction.

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Other Primary Contentions

Analysis of Optima Ventures Presentation

- *"County will spend $34 Million more for the recommended proposal"*
 - **Optima's financial analysis was incomplete and inconsistent. The County and its consultants identified 16 separate errors in their calculations, of which the 6 we have identified tonight equal $41 Million.**
- *"The last thing Cleveland needs is a new office building adding to market vacancy"*
 - **Under other proposals, including Optima's, the P&H Buildings would have been put on the market as 190,000 sf of empty, obsolete, dysfunctional office space. The recommended proposal redevelops them and drives tenants to fill space elsewhere in the market.**
- *" "Optima was advised that an increase in the price for Ameritrust at the expense of Headquarters rent would not be viewed favorably"*
 - **During October, Optima suggested it would raise its price on Ameritrust but would also increase its rent at 925. CBRE indicated this would not result in more favorable economics (would be a "wash" to County). The suggestion made by Optima on January 2nd seeks to do just this – raise its price on Ameritrust but charge the County with a nearly equal cost in increased rent.**
- All analyses should be done on an apples-to-apples basis
 - **The County and its consultants agree. The Ameritrust BTS analysis clearly takes into account a very conservative estimate of the additional costs of Years 21-26. In fact, if the Ameritrust proposal were compared directly to the 925 Proposal, the Ameritrust analysis would improve by $5 Million on this basis alone.**

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Other Primary Contentions (con't)

Analysis of Optima Ventures Presentation

- *"…not sure how you came about the construction numbers…"*
 - **Based upon site visits, actual layouts, and using uniform assumptions, the County engaged some of the area's premier cost estimating firms to provide this estimate.**
- *"Optima received a low score for environmental stewardship"*
 - **This was true for Optima's offer to buy Ameritrust. Both Geis and Agnew / Landmark made significant commitments towards sustainable / green redevelopment of that property, and Optima did not. This did <u>not</u> impact the Headquarters scoring.**
- *"Signage at 925 would not be limited to Chester Avenue"*
 - **Proposals, presentations, and renderings from 925 ownership made it clear the intention was for the County's dedicated entrance and awnings to be along Chester. The proposal was docked points due to location of the primary entry, not signage.**
- *" "There is no lost identity at the 925 Building"*
 - **With a main entrance on Chester Avenue, a 20% share of building, and the need for all parkers and Euclid public transit riders to navigate common lobbies and corridors, the County respectfully disagreed. The County felt a location at the corner of East 9th and Prospect pointed at the innerbelt was more prominent and desirable.**

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